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September 13, 2006

Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
One South Station, 2nd Floor
Boston, Massachusetts 02110

Re: Southern Union Company, D.T.E. 06-71

Dear Ms. Cottrell:

Enclosed herewith is the attachment for the response of Southern Union Company (the "Company") to Information Request DTE-1-6 of the Department of Telecommunications and Energy (the "Department") in the above-referenced proceeding. Please note Attachment DTE-1-6 was inadvertently omitted from the Company's responses to the First Set of Information Requests filed with the Department yesterday.

Thank you for your attention to this matter. Please do not hesitate to contact me if I can provide you with any additional information concerning this matter.

Sincerely,

Cheryl Kimball

Cheryl M. Kimball

Enclosure

cc: Caroline M. Bulger, Hearing Officer
Glenn Shippee, Rates & Revenue Requirements

STANDARD &POOR'S	RATINGSDIRECT

RESEARCH

Research Update: Southern Union 'BBB' Corporate Credit Rating Affirmed, Off Watch Neg

Publication date: 16-Feb-2006
Primary Credit Analyst: Judith Waite, New York (1) 212-438-7677; judith_waite@standardandpoors.com

Credit Rating: BBB/Negative/--

Rationale

On Feb. 16, 2006, Standard & Poor's Ratings Services affirmed its 'BBB' corporate credit rating on natural gas transportation and distribution company Southern Union Co. and removed the rating from CreditWatch with negative implications.

The rating affirmation and removal from CreditWatch follow a review of the company and its plans to acquire Sid Richardson Energy Services (SRES), a privately held gas gathering and processing business in the Texas Panhandle, for $1.6 billion.

The outlook is negative. Southern Union has $2 billion of debt outstanding. The rating on Southern Union had been placed on CreditWatch on Dec. 16, 2005, when the company the announced its intent to acquire SRES.

The negative outlook reflects the risk of a downgrade if the company is unable to restore its financial profile to acceptable levels within a reasonable time following the acquisition.

The SRES acquisition adds notably to Southern Union's otherwise very low business risk profile, increasing Standard & Poor's overall assessment of the business profile to '4' from '3' (business profiles are categorized from '1' (excellent) to '10' (vulnerable)), but it remains strong. Southern Union must strengthen the consolidated financial profile to offset this increased business risk in order to retain its current rating.

SRES owns highly efficient gas processing and treating plants, and in its operating territory is the second largest gathering and processing operator on the Texas side and third largest on the New Mexico side of the border. Southern Union's 50% owned Transwestern Pipeline is one of the major gas transportation pipelines out of the Permian Basin region, where SRES has operated for more than 60 years. SRES has good outlets to the California, Midcontinent, and Texas markets for gas and to Mt. Belvieu for natural gas liquids. Percentage of proceeds contracts account for 80% to 85% of margin, and fee-based contracts account for almost all the rest. Southern Union has also put floor prices of $11 on 85% of 2006 residual gas and $10 on 50% of 2007 residual gas, a policy the company is expected to carry forward if gas prices remain high. All of these factors help limit SRES' business risk.

Southern Union's financial profile has been substantially weaker than expected for the 'BBB' category for most of the past few years, a situation that cannot continue at the current rating level. Standard & Poor's places significant reliance on management's commitment to credit quality and its understanding that the restoration of the financial profile will remain a high priority versus growth-oriented investments. With respect to the SRES acquisition, Southern Union will use $1.1 billion of proceeds from the sale of gas distribution businesses in Pennsylvania and Rhode Island and issue a combination of debt and equity to finance the balance of the purchase price. As a result, the capital structure of the consolidated company will remain solidly within the range appropriate for the 'BBB' corporate credit rating.

The capital structure will also be strengthened by the $125 million of equity to be issued in 2006 and $100 million of equity in 2008 associated with convertible notes issued in 2003 and 2005. When those notes are remarketed, proceeds will be used to pay down other debt. Moderate increases in the earnings of the remaining gas distribution businesses and the natural gas pipelines, plus the earnings of SRES, are expected to improve funds flow from operations to debt to 15% or above, up from the weak level of less than 12% as of Sept. 30, 2005.

Southern Union is an evolving company. However, the direction is away from natural gas utilities and toward gas transportation and services industry. As a result, the company's credit quality is also evolving, and may become less stable and predictable, a situation that will be dictated by future acquisitions and by the related financing structure.

Liquidity

Southern Union's $400 million revolving credit facility that matures May 28, 2010 provides adequate liquidity for the company's seasonal natural gas purchases. As of Oct. 28, 2005, the company had $305 million outstanding under the facility, but this was down to $250 million by year end. In addition, the company increased its uncommitted short-term bank line to $65 million. Under this facility, the company borrowed $50 million as of July 19, 2005 for an initial period of six months. Panhandle Eastern Pipe Line L.P. provides its own liquidity from cash flow, since it has no commodity price risk and has minimal borrowing requirements.

Outlook

The negative outlook on Southern Union indicates the risk of a downgrade if the company is unable to restore the financial profile to acceptable levels within a reasonable time frame following the acquisition. However, the use of equity and asset sale proceeds is an important indication of Southern Union's commitment to credit quality and should enable its credit quality to improve to a level consistent with the 'BBB' rating within two years following the transaction.

Ratings List

Ratings Affirmed, Off Watch Neg

	To	From
Southern Union Co.		
Corporate credit rating	BBB/Negative/--	BBB/Watch Neg/--
Senior secured debt	A-	A-/Watch Neg
Senior unsecured debt	BBB	BBB/Watch Neg
Preferred stock	BB+	BB+/Watch Neg
Panhandle Eastern Pipe Line L.P.		
Corporate credit rating	BBB/Negative/--	BBB/Watch Neg/--
Senior unsecured debt	BBB	BBB/Watch Neg

Complete ratings information is available to subscribers of RatingsDirect, Standard & Poor's Web-based credit analysis system, at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com; under Credit Ratings in the left navigation bar, select Find a Rating, then Credit Ratings Search.

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FitchRatings

FITCH AFFIRMS SOUTHERN UNION AT 'BBB'; OFF RATING WATCH NEGATIVE

Fitch Ratings-New York-24 February 2006: Southern Union Co.'s (SUG) outstanding credit ratings are affirmed and removed from Rating Watch Negative by Fitch Ratings as follows:

--Issuer Default Rating (IDR) 'BBB';
--Senior unsecured debt 'BBB';
--Preferred stock 'BBB-';
--First mortgage bonds 'BBB+'.

Panhandle Eastern Pipe Line Co., LLC (PEPL)
--Issuer Default Rating (IDR) 'BBB';
--Senior notes 'BBB'.

Fitch originally placed SUG on Rating Watch Negative on Dec. 16, 2005. The Rating Outlook is Stable.

The rating action follows Fitch's review of SUG's pending acquisition of Sid Richardson Energy Services (SRES) in an all cash transaction valued at $1.6 billion. SRES is a privately held midstream energy company which owns and operates an integrated natural gas gathering and processing system located in the Permian Basin of Texas and New Mexico. The transaction has received all necessary regulatory approvals and is expected to close on March 1, 2006. SUG will initially fund the purchase with bridge debt which is expected to be taken out by the third quarter of 2006 with proceeds generated from the recently announced sale of SUG's PG Energy and Rhode Island gas utility divisions for a combined $1.1 billion in cash. The remaining $500 million of bridge debt is expected to be permanently refinanced with a mix of SUG common equity and bank debt at SRES.

In affirming the ratings for SUG, Fitch considered the shift in consolidated business risk resulting from the SRES acquisition, the financial and structural implications of SUG's permanent funding plan, and the impact of a less robust natural gas price environment on SUG's longer term credit profile. Key credit strengths include the balanced mix of cash flow contribution between SUG's regulated gas distribution and interstate pipeline operations and SRES, the relatively low execution risk involved with SUG's permanent acquisition funding plan, the substantial elimination of commodity price risk at SRES through 2007, and the expectation for consolidated credit ratios to remain within 'BBB' parameters even under an alternative forecast scenario incorporating a more conservative outlook for natural gas prices. Primary risk factors include heightened commodity price risk beyond 2007 and continuation of SUG's aggressive acquisition strategy, recently highlighted by management's willingness to purchase assets at the peak of the commodity cycle.

The pending SRES acquisition accelerates SUG's evolution from a multi state regulated gas utility to a predominately FERC regulated gas pipeline and midstream energy services provider. On a pro forma basis, Fitch expects SUG's remaining gas distribution operations, consistently primarily of the Missouri Gas Energy (MGE) division, and FERC regulated pipeline activities to generate roughly 70% of consolidated cash flow with the balance contributed by SRES. Fitch notes that SRES adds a new element of commodity price exposure to the SUG credit profile. In particular, cash flows at SRES are largely dependent on percentage of proceeds contracts under which returns are derived primarily from throughput volumes and the absolute value of natural gas. SUG has taken steps to mitigate near-term cash flow volatility at SRES by hedging 85% of expected 2006 volumes at $11.00 per mmBtu and 50% of 2007 volumes at $10.00 per mmBtu. However, Fitch views the longer term direction of the midstream sector as uncertain and will be determined in large part by the ultimate direction of natural gas/NGL prices.

Credit strength continues to be derived from the low business risk profile of SUG's MGE division and cash flow contribution from FERC regulated pipeline activities, which include PEPL and indirect investments in both Transwestern Pipeline (TWP) and Florida Gas Transmission (FGT) via SUG's 50% ownership in CrossCountry Energy Holdings (CCE). PEPL, TWP and FGT have collectively demonstrated successful operating track records, maintain relatively strong competitive characteristics, and demonstrate minimal cash flow volatility as the vast majority of revenues are collected through fixed capacity payments from shippers. In addition, the nearly completed expansion of PEPL's Trunkline LNG import facility should contribute up to $80 million of incremental high margin revenues derived from a long-term tolling arrangement with affiliates of BG Energy Holdings Ltd (IDR rated 'A-' with a Stable Outlook by Fitch). MGE, while representing a proportionally smaller percentage of consolidated cash flows, continues to generate stable financial results. In particular, MGE has benefited from both a recent rate increase and rate design improvements.

Near-term consolidated credit protection measures are expected to strengthen in cadence with SUG's higher business risk profile, particularly given the hedged nature of SRES' cash flows in 2006 and 2007. Specifically, Fitch expects adjusted EBITDA (defined as SUG consolidated operating EBITDA plus cash distributions from CCE) to interest and consolidated debt to adjusted EBITDA to approximate 4.5 times (x) and 3.5x, respectively, by year-end 2007. As part of its analysis, Fitch prepared an alternative projection scenario to gauge SUG's performance in a less robust natural gas price environment. Specifically, Fitch's model incorporates a gradual decline in natural gas prices to approximately $4.50 per mmBtu by 2010. While the lower gas price model results in weaker cash flow results, particularly beyond 2008 when SRES' volumes are unhedged, revised credit ratios under the alternative case remain within parameters for the current ratings.

With the pending sale of the PG Energy and Rhode Island divisions, SUG will evolve toward a more traditional holding company structure. On a post divestiture basis, EBITDA generated at the SUG parent level will be reduced to approximately $85 million, the vast majority of which represents the MGE division. At the same time, SUG corporate level debt remains constant at approximately $900 million as proceeds from ongoing asset sales have been re-deployed into the purchase of pipeline assets and SRES. These obligations are subordinated to several layers of subsidiary debt including $1.2 billion senior debt of PEPL, $1.8 billion at CCE, and the planned debt offering at SRES. The affirmation of SUG's ratings reflects the expectation that cash flow derived at the SUG level combined with ongoing cash distributions from the various pipeline subsidiaries and SRES will continue to sufficiently cover all holding company fixed charges including debt service and preferred and common stock dividends.

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Moody's Investors Service

Global Credit Research
Credit Opinion
24 FEB 2006

Credit Opinion: Southern Union Company

Southern Union Company

Wilkes-Barre, Pennsylvania, United States

Ratings

Category	Moody's Rating
Outlook	Negative
Corporate Family Rating	Baa3
Senior Unsecured	Baa3
Preferred Stock	Ba2
Panhandle Eastern Pipe Line Company, LLC	
Outlook	Stable
Senior Unsecured	Baa3

Contacts

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Key Indicators

Southern Union Company

	[1]LTM 9/2005	[2]FYE 12/2004	6/30/2004	6/30/2003	6/30/2002	6/30/2001
Net Income to Average Common Equity	10.5%	7.7%	10.4%	9.5%	2.8%	7.9%
Fixed Charge Coverage	1.99	1.96	2.15	1.48	1.47	1.14
Retained Cash Flow to Adjusted Debt	11.2%	8.9%	11.7%	5.0%	9.6%	6.7%
Adjusted Debt to Adjusted Capital [3]	61%	73%	69%	81%	89%	91%
Funds from Operations to Fixed Charges	3.0	3.0	3.2	2.5	2.4	2.1
Dividends/Net Income [4]	12%	18%	7%	12%	48%	17%

[1] Last twelve months ended September 30, 2005 [2] Fiscal Year Ending 12/31/2004 [3] Adjusted capital includes: - goodwill + deferred taxes [4] Preferred dividends/Net Income

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Credit Challenges

Southern Union's credit challenges are:

- Tendency to grow through successive and transforming size acquisitions containing funding and event risk elements

- Evolving efforts at improving corporate governance in a company that has been traditionally closely-held and attempting to define a long-term strategy and structure for future growth and succession planning for management and the board

- Integration risks following the recent Sid Richardson gas gathering and processing acquisition for $1.6 BN

- Formulating clearer policies with regard to future dividend payments while at the same time funding active capital expenditure growth programs and likelihood of making further acquisitions

Credit Strengths

Southern Union's credit strengths include:

- Predominantly low business risk with majority of operations in the more stable gas transmission area

- Successful integration of recent pipeline acquisitions

- Newly acquired transmission segment somewhat offsets the seasonality of the distribution business

Rating Rationale

Southern Union Co.'s Baa3 rating (sr. uns./ negative outlook) reflects its predominantly stable gas transmission operating income that is expected to comprise the majority of its 2006 EBITDA, with distribution (Massachusetts and Missouri) and gas gathering and processing each comprising approximately twenty percent. Moody's assigns an overall Baa3 rating for the combined businesses of SUG, after factoring in the evolving nature of the company's corporate governance and uncertainty of future corporate direction. SUG remains both an operating utility and a diversified holding company, whose board oversight extends to all business segments. From its former 100% LDC operating income position of 2002, the company has now moved down to approximately 20% gas distribution (Massachusetts and Missouri) and it is conceivable that it could also trade out of the remaining LDC position in the future to make room for still different energy investments. Throughout these transforming years however, the company has recognized a need to deleverage in order to stabilize its balance sheet through a combination of debt repayment and equity issuance; what remains to be seen is whether the investments into new business areas would yield a consistency of rising earnings and fixed charge coverages that would serve to strengthen the credit metrics for this continuously-changing energy company.

Corporate Governance

Corporate governance concerns remain a constraint on the potential for rating upgrades at SUG. In Moody's view, the company still has a low level of director independence, succession remains a concern at the board and CEO levels and senior executive compensation still appear to be weighted towards the short-term. The board will be especially challenged to provide oversight over what is a strategic shift by SUG out of the regulated LDC business and into the unregulated gas gathering and processing sector. The challenge is significant given the relatively low level of experience in this business on the board. As current senior management also has limited experience in this segment, the board will be especially challenged to evaluate such issues as integration of operations and risk management.

SUG's operating philosophy appears to be less one of a regulated gas company that that of a diversified energy company that moves into and out of assets depending on where it believes assets are undervalued. This would tend to make the company prone to event risks and more difficult for investors outside the company to evaluate the ongoing volatility of the overall business, which now includes a greater degree of cyclicality, volume throughput and commodity risk.

SUG's announced contingency succession plan, which named the son (who has been a board director since 1990) of the current Chairman and CEO, and an attorney with limited operating experience at a gas company as those who would lead SUG in the future, raises questions as to when a permanent succession plan will be put in place.

Financial Reporting

SUG has a substantial investment in CCE Holdings (CCE), a joint-venture LLC with GE as principal partner, which wholly owns Transwestern Pipeline Company and indirectly owns 50% of Florida Gas Transmission (FGT). While Southern Union does not have unilateral control over CCE, it manages the day-to-day operations of CCE's pipelines in conjunction with its wholly owned gas transmission and storage business in exchange for a management fee and cost reimbursement. Since it does not control CCE, SUG accounts for this investment under the equity method of accounting. SUG's investment and equity earnings in CCE were approximately 12% of SUG's total assets and pre-tax earnings as of and for the nine months ended September 30, 2005.

GE initially owned 50% of CCE, but has sold a 20% interest in CCE to other financial investors. SUG and GE have identical call options on each others ownership interests in 25% increments exercisable in 2009 through 2012. In 2009, SUG can also exercise a call option on all ownership interests in CCE held by other investors. GE has an option to put its interest in CCE to Southern Union in November 2014. Because of the strategic importance of CCE to SUG and the ownership options, Moody's calculates key leverage and cash flow coverage metrics for SUG using pro forma financial statements that consolidate CCE and its 50% ownership of FGT on a proportional basis to SUG's ownership interest and on a fully consolidated basis. Moody's also considers the potential impact on SUG leverage resulting from the put option held by GE, but we note that it is not exercisable until 2014.

The equity method of accounting and related disclosures does not fully convey the size and significance of CCE to SUG, especially after the divestitures of the LDC operations. CCE's revenues for the nine months ended September 30, 2005 were $175 million, in comparison to $362 million of revenues reported by SUG for its consolidated gas transportation and storage businesses. In its soon to be filed 2005 Form 10-K, SUG will attach full audited financial statements for CCE which will provide investors and creditors with more visibility into this strategic investment of SUG.

Acquisitions Execution

The $1.6 BN acquisition funding risk of Sid Richardson has been significantly mitigated through SUG's agreement to sell its Pennsylvania LDC to UGI for $580MM and its Rhode Island LDC to National Grid for $498MM, reducing its reliance on the acquisition bridge loan to approximately $522MM by September 2006, assuming a timely sales closing of the LDCs by then. In addition, the company plans to issue a combination of common stock equity and debt to permanently finance the $522MM residual portion of the Sid Richardson acquisition.

Rating Outlook

The negative outlook on SUG as corporate parent stems from the questionable ability for it to extract additional cash flows and dividends from its remaining gas LDCs in Missouri and Massachusetts and Panhandle Eastern Pipe Line which it owns directly and from Transwestern Pipeline Company and Florida Gas Transmission Co. which it owns indirectly through CCE, as these operating companies undertake their own capital expenditure expansion and maintenance programs during the next few years. After the sale of its Pennsylvania and Rhode Island LDCs, SUG will still have approximately $675MM of term debt which will have to be serviced from the operating division cash flows and dividend payments from the operating companies even as these companies undertake their own capital expenditure spending programs and service their own debt needs. Furthermore, while the Sid Richardson gas gathering and processing business appears promising, this business has limited stand-alone financial reporting history to evaluate SUG's forecasted results against. In addition, there remain questions of financial, operating and personnel integration of a privately-run company into a publicly-held holding company that has more specific public disclosure and reporting requirements under SEC rules.

What Could Change the Rating - UP

In the near term, we do not anticipate upward pressure on the rating, given the reasons for the negative outlook. Over the medium term, SUG's outlook and credit ratings could be positively impacted if the company exhibits sustained improvement in credit metrics and moderation of frequency in acquisitions, allowing for a continuous period of stability for improving business performance. In addition, Moody's will monitor SUG's evolving corporate governance activities, especially if they attempt to emulate certain aspects of best practices within the industry.

What Could Change the Rating - DOWN

SUG's ratings could be lowered should its leverage increase again or coverage ratios deteriorate or it assumes additional risks from acquisitions that are disproportionate to management or the board's ability to exercise corporate oversight, or if the integration of new businesses should not prove successful or if the company makes a transforming acquisition that takes the company into unkown areas of operation. The loss of key operating management expertise in the gas utility, gas gathering and processing or pipeline businesses could also be cause for downgrades.

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